United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

SEP 23 2003

The Honorable Jim Nussle
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515-6065

Dear Mr. Chairman:

Thank you for the opportunity to provide the Committee with information regarding waste, fraud, and abuse in the mandatory spending programs within the Department of the Interior (Department or DOI).

Your letter of invitation asked for information concerning mandatory spending, or "entitlements," which are funds controlled by laws other than annual appropriations acts. We used the list prepared by the Congressional Budget Office, which identified DOI accounts with this sort of funding, to determine those mandatory spending areas in which the Office of Inspector General (OIG) has reviewed and addressed potential for waste, fraud and abuse. The major program area in which the OIG has conducted audits and/or investigations and determined that funds were either misspent or that improvements over the control of funds were warranted was in assistance to U.S. Territories and Freely Associated States.

The Department is appropriated over $300 million annually for distribution to U.S. Insular Area (IA or Insular Areas) governments. Most of these funds are given to the IA governments in the form of entitlement-type funding, over which the Department has little or no control.

In Fiscal Year 2002, following years of frustration over the lack of responsiveness to OIG audit findings in the Insular Areas, we undertook an historic review of the often-reported weaknesses plaguing the IA governments. Based on this review, we concluded that the state of financial affairs in the Insular Areas was disturbing and that legislation might be required to effectively remedy part of the problem.

In our April 2002 Semiannual Report to Congress, we called upon the Department and other Federal agencies that provide funding to the Insular Areas to take aggressive action to address these longstanding concerns. In that issue, we reported:

> The state of financial affairs of the Insular Areas is, in a word, disturbing. In no fewer than 458 audits conducted in the Insular Areas dating back to 1982, repeated deficiencies have been detected, reported, and passed on to the various governing entities. While a majority of the recommendations were accepted, in the end, most have gone

unimplemented. The Federal government can no longer continue to accept silence and inaction from appointed or elected officials, legislative bodies, or other responsible Insular Area entities concerning these deficiencies.

The Insular Area governments (Guam, U.S. Virgin Islands, American Samoa, Commonwealth of the Northern Mariana Islands, Republic of the Marshall Islands, Federated States of Micronesia, and the Republic of Palau) face major management challenges that in most cases are not being addressed, yet program monies and grants continue to flow.

The tax dollars at stake are not insignificant. Those funds aggregate to approximately three-quarters of a billion dollars annually, when Department of the Interior funded programs (FY02: $353 million) and other non-Interior Department funding such as from the Departments of Health and Human Services, Education, and Agriculture (which totaled $405 million in FY99) are taken into account. The Department of the Interior does not have authority over any of the program grants funded by other Federal Departments or agencies.

We believe unrealized opportunities for improvement exist in the fundamental areas of:

- ♦ Financial management
- ♦ Revenue enhancement
- ♦ Expenditure control
- ♦ Program operations

Selected examples of the types of deficiencies uncovered during this reporting period include:

➢ Estimated lost potential tax revenues of $7.1 million in American Samoa in fiscal years 1997 through 1999 due to uncorrected long-standing deficiencies identified in five audit reports issued since 1986.

➢ The loss, or potential loss, of as much as $65.1 million by four semi-autonomous government agencies in Guam, brought about by not following financial advice available from the Guam Economic Authority.

➢ Failure to conduct required biennial fire safety inspections or collection of fire inspection fees of at least $1.1 million by the Virgin Islands Fire Service in fiscal years 1999 and 2000.

➢ The failure by the Virgin Islands Housing Finance Authority (Authority) to (1) establish competitive procurement procedures for selection of housing development contractors, and (2) ensure that program participants met eligibility requirements. This led to questionable payments of as much as $1.95 million to two contractors and preferential treatment to some clients as well as several interest-free loans to Authority employees.

> Inadequate controls over financial operations by the Authority also led to a debt of $809,500 for loans to two housing communities and the inability to use bond proceeds of $33.7 million to provide mortgages to eligible participants.

There are many other examples that can be drawn from several prior audits. The common denominator, though, is the lack of responsiveness in seeking to remove impediments to efficiency. Legislation might be required to effectively remedy part of the problem. The Insular Areas may also require resources and other assistance in order to overcome these obstacles.

Without implementation and enforcement of accepted business standards and improved accountability, waste and abuse in the Insular Areas will continue unabated. It is time for OIA and the other Federal grantor agencies to assign a degree of urgency in devising and implementing a realistic plan that will provide assistance and bring about results.

Although over a year has passed since we made this report, we have no information to suggest that the state of affairs in the Insular Areas has improved. The OIG has proposed a task force effort with its counterparts in other Departments and agencies that provide funding to the Insular Areas, with very limited success. We believe, however, that if funding to the Insular Area governments were tied to their responsible management of those funds, we would see a marked improvement in their fiscal operations. As we noted in our April 2002 Semiannual Report, this may require legislation, in addition to resources and other assistance, to accomplish.

I hope this information will be helpful to you and the Committee. If you have additional questions, please feel free to contact me or my deputy, Mary Kendall Adler, at (202) 208-5745.

Sincerely,

for Mary Kendall Adler

Earl E. Devaney
Inspector General